

VZCZCXRO7329
OO RUEHAST RUEHBI RUEHCI RUEHLH RUEHLN RUEHPW RUEHVK RUEHYG
DE RUEHTA #1355/01 2100449
ZNR UUUUU ZZH
O 280449Z JUL 08
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2841
INFO RUCNCIS/CIS COLLECTIVE 0578
RUCNCLS/SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 04 ASTANA 001355

SENSITIVE
SIPDIS

H PLEASE PASS TO CODEL REID

E.O. 12958: N/A
TAGS: [PREL](#) [OREP](#) [PGOV](#) [ECON](#) [OVIP](#) [OTRA](#) [KZ](#)

SUBJECT: SCENESETTER FOR CODEL REID'S AUGUST 7-8 VISIT TO
KAZAKHSTAN

Summary

1. (SBU) Your visit to Kazakhstan comes at a particularly opportune time. With its recent selection as 2010 OSCE chairman and thriving energy sector, Kazakhstan is showing increasing confidence on the international stage. The country is rightly proud of its achievements: a booming economy, largely harmonious multi-ethnic society, and rapidly expanding national capital. The country celebrated Astana's 10th anniversary as Kazakhstan's capital on July 6 (which was also President Nazarbayev's 68th birthday) with gala festivities that were attended by Russian President Medvedev, Turkish President Gul, Jordan's King Abdullah and six other foreign heads of state.

2. (SBU) Kazakhstan has proven to be a reliable security partner and a steady influence in a turbulent region. The pace of democratic reform, however, has been slow, with political institutions, civil society, and the independent media still underdeveloped. Our fundamental strategic objective is a secure, democratic, and prosperous Kazakhstan that embraces market competition and the rule of law; continues partnering with us on the global threats of terrorism, WMD proliferation, and narco-trafficking; and develops its energy resources in a manner that bolsters global energy security. We would welcome your assistance in underlining to the Kazakhstani government the importance of:

-- continuing Kazakhstan's strong support for Coalition efforts in Afghanistan

-- following through on the democratic reform commitments Kazakhstan made when selected to be 2010 OSCE chairman

Strong Growth, But Short- and Long-Term Challenges

3. (SBU) Kazakhstan is the region's economic powerhouse, with an economy larger than that of all the other Central Asian states combined. Economic growth averaged 9.2% a year during 2005-07, and the percentage of the population living below the subsistence level dropped from 28% in 2001 to under 10% at present. The energy sector is the dominant earner, with oil exports accounting for roughly a third of GDP. In the long term, Kazakhstan must focus on diversifying its economy, building up non-extractive industries, agriculture, and the service sector. In the short term, Kazakhstan is facing dual challenges of rising inflation, propelled by soaring international prices on food and agricultural commodities, and reduced economic growth, a reflection of the domestic impact of the global financial crisis. The government imposed a temporary ban on wheat exports in April to ensure adequate domestic supply and to keep prices down on bread. As Kazakhstan produces much more wheat than it consumes, we anticipate the ban will be lifted by September, once the government has confirmed that the annual wheat harvest was

successful.

An Emerging Energy Power

¶4. (SBU) Kazakhstan exported just over 60 million tons of crude oil in 2007 and is expected to be one of the world's top ten oil producers soon after 2015. The country also has significant natural gas reserves, but for now gas exports are relatively limited, in part because gas is being reinjected to maximize crude output. U.S. companies have significant ownership shares in each of Kazakhstan's three major oil and gas projects: Tengiz, Kashagan, and Karachaganak. Tengiz (with 50% Chevron and 25% ExxonMobil stakes) recently inaugurated a second generation expansion which will increase its crude production from 400,000 barrels per day to 540,000 later this year. Kashagan (with 16.7% ExxonMobil and 8.3% ConocoPhillips stakes) is the largest oil field discovery since Alaska's North Slope and perhaps the world's most technically complex oil development project. In January, the Kazakhstani government and the Kashagan consortium's international partners agreed on revised terms for the Kashagan contract which resulted in a new operatorship model, financial compensation to Kazakhstan for several years of production delays and significant cost overruns, and an increased ownership stake and management role for Kazakhstan's state oil and gas company, KazMunaiGas (KMG). Kashagan is expected to commence production in 2013. Karachaganak (with a 20% Chevron stake) is one of the world's largest oil and gas condensate fields, producing 10.4 million tons of oil and 12 billion cubic meters of gas in 2007.

¶5. (SBU) The Kazakhstanis recognize they do not have the capability

ASTANA 00001355 002 OF 004

to exploit their oil and gas resources on their own, especially given the complexity of Kazakhstan's oil and gas projects. Kazakhstan thus continues to welcome foreign investment in energy exploration and production, and both the Kazakhstani government and the international companies are committed to an enduring relationship. That said, Kazakhstan has grown increasingly assertive in its energy sector in recent years, reexamining the terms of existing contracts, driving a harder bargain with prospective investors, and aggressively pursuing environmental and tax claims against international oil companies.

¶6. (SBU) With major production increases on the horizon, Kazakhstan must develop additional transport routes to bring its oil and gas to market. Our policy is to encourage Kazakhstan to seek diverse routes, which will ensure the country's independence from transport monopolists. Currently, the bulk of Kazakhstan's crude oil is exported via Russia, including through the Transneft system and the independently-owned Caspian Pipeline Consortium (CPC) pipeline. Near-term crude production increases are likely to flow by rail through Russia, by tanker across the Caspian Sea to Baku, and through the CPC pipeline, should an agreement be reached with Russia on CPC expansion. We believe that a trans-Caspian oil pipeline must be built to handle later production growth; however, Kazakhstan is reluctant to openly pursue this option in the absence of an agreement on delimitation of the Caspian Sea among the five Caspian littoral states.

Democratic Development Lags

¶7. (SBU) While the Kazakhstani government articulates a strategic vision of democracy, it has lagged on the implementation front. This in part reflects the political reality that President Nazarbayev remains extraordinarily popular, while the opposition is weak and fractured. It also is a result of the government's resistance to competitive political processes. In May 2007, significant amendments were adopted to Kazakhstan's constitution which were touted as strengthening parliament, but also removed terms limits on Nazarbayev. In parliamentary elections held in August 2007, Nazarbayev's Nur Otan party officially received 88 percent of the vote and took all the seats in parliament. The OSCE

election observation mission concluded that the elections did not meet OSCE standards.

18. (SBU) When Kazakhstan was selected as 2010 OSCE chairman at the November 2007 OSCE Madrid ministerial meeting, Foreign Minister Tazhin publicly committed that his country would undertake several democratic reforms. Specifically, he promised that by the end of 2008, Kazakhstan would amend its election and media legislation taking into account the recommendations of the OSCE's Office of Democratic Institutions and Human Rights (ODIHR), as well as liberalize registration procedures for political parties and media outlets. (Note: Tazhin also promised that Kazakhstan would support the OSCE's "human dimension" and preserve ODIHR's mandate, including its critical role in election observation. End Note.) The government has thus far taken limited steps toward implementing its "Madrid commitments," including establishing working groups, with civil society and opposition participation, to discuss amendments to the election and media legislation. In a June 29 address to the OSCE Parliamentary Assembly, President Nazarbayev publicly discussed the commitments for the first time. Though much work remains, there is sufficient time for Kazakhstan to follow through by year's end -- and we have been repeatedly reassured by the government that it will do so. We have made clear that reneging on the commitments would undermine Kazakhstan's effectiveness as future OSCE chair.

Concerns on the Media and Religion Fronts

19. (SBU) While Kazakhstan's diverse print media includes a plethora of newspapers sharply critical of the government and of President Nazarbayev personally, the broadcast media is almost exclusively in government hands and maintains a pro-government line, with little coverage of opposition parties. The government apparently blocked several opposition websites in late 2007 for uploading recordings of embarrassing conversations between senior government officials (which were likely made by Nazarbayev's former son-in-law, Rakhat Aliyev, who was recently convicted in absentia of plotting a coup). Access has not been restored to all of these sites. In April, the English- and Kazakh-language websites of Radio Free Europe/Radio Liberty (RFE/RL) became inaccessible to customers of state-owned Kazakhtelecom. We raised the RFE/RL issue with senior officials. The government did not admit to actively blocking the RFE/RL websites, but they subsequently became accessible again in early June.

ASTANA 00001355 003 OF 004

110. (SBU) While Kazakhstan prides itself on its religious tolerance, religious groups not traditional to the country -- such as evangelical Protestants, Jehovah's Witnesses, Hare Krishnas, and Scientologists -- have faced difficulties. There has recently been a significant increase in negative media coverage of "non-traditional" religions which appears to have been orchestrated in part by the government. The Kazakhstani parliament is currently considering a package of amendments to the country's religion law which would assert greater government control over non-traditional groups. While the latest draft text represents an improvement over the original version, it retains several problematic provisions, including ones that would create a distinction between large and small religious groups, limiting the rights of the latter. At the urging of the U.S. and our OSCE partners, Kazakhstan submitted the legislation for review by ODIHR. We want to ensure that Kazakhstan takes into account ODIHR's recommendations in the final version -- as senior Kazakhstani officials have promised us they will do.

Afghanistan and Iraq

111. (SBU) Kazakhstan is an important partner for Afghanistan's Operation Enduring Freedom (OEF). To date, Kazakhstan has facilitated over 4000 cost-free overflights for U.S. military aircraft supporting OEF. Kazakhstan is also providing Afghanistan with \$2.88 million in assistance in 2008, which is being used for food and seed aid and to construct a hospital, school, and road.

The Kazakhstanis are encouraging their private sector to seek out investment opportunities in Afghanistan, and have indicated that they want to make Afghanistan a focal point for their OSCE chairmanship. In addition, Kazakhstan is the sole Central Asian country participating in Operation Iraqi Freedom (OIF). Since August 2003, the Kazakhstanis have maintained a military engineering unit in Iraq which has disposed of over 4.5 million pieces of unexploded ordnance.

U.S. Government Assistance to Kazakhstan

¶12. (SBU) We are implementing a broad range of assistance programs in Kazakhstan to advance U.S. national interests and strengthen the U.S.-Kazakhstan strategic partnership. Non-proliferation cooperation has been a hallmark of our bilateral relationship since Kazakhstan became independent and agreed to give up the nuclear arsenal it inherited from the USSR. Our bilateral Nunn-Lugar Cooperative Threat Reduction (CTR) program has facilitated the dismantlement of Kazakhstan's intercontinental ballistic missile launchers, closure of test tunnels and boreholes at the former Soviet nuclear test site in Semipalatinsk, and elimination of an anthrax weapons production facility. The Department of Defense and Department of Energy were allocated over \$90 million in FY 2008 for ongoing programs in the nuclear field, including the effort to secure and store spent fuel from a closed plutonium production reactor in western Kazakhstan, and for a biological threat reduction program aimed at ensuring effective Kazakhstani control of dangerous pathogens. On-going State Department non-proliferation programs focus on securing Kazakhstan's borders to prevent the spread of WMD-related materials.

¶13. (U) USAID, with just under \$13 million in Kazakhstan funding in FY 2008, is implementing programs in three areas: democracy, health, and economic development. The democracy program includes activities to strengthen civil society and independent media and to enhance the dialogue between the government and the public on important policy issues. Funding for health is aimed at promoting reform of the health care system, improving maternal and child health, and controlling tuberculosis and HIV. The economic development program, which is essentially being phased out following FY 2009, receives co-financing from the Kazakhstani government. It has focused, inter alia, on strengthening the government's economic-policymaking capabilities, promoting fiscal transparency, and fostering economic diversification and the development of small- and medium-sized enterprises.

¶14. (SBU) Our military assistance aims to increase Kazakhstan's interoperability with U.S. and NATO forces, enhance Kazakhstan's participation in the Partnership for Peace, and increase Kazakhstan's capacity to serve in global peacekeeping operations. With \$2.3 million in FMF and IMET funding plus a \$10 million Section 1206 allocation for FY 2008, we are providing boats and refurbished Huey-II helicopters for a Caspian Sea counter-terrorism rapid reaction force and are training Kazakhstani military personnel. Other U.S. security assistance programs are enhancing Kazakhstan's effectiveness in combating drug trafficking, promoting law

ASTANA 00001355 004 OF 004

enforcement reform, and bolstering Kazakhstan's efforts to prevent trafficking in persons.

¶15. (U) Approximately 200 Kazakhstanis -- including high school, undergraduate, and graduate students, as well as government officials and private sector leaders -- are being sent to the U.S. in 2008 on public diplomacy-funded exchange programs, such as the FLEX, Muskie, and International Visitors Leadership programs. (Note: Overall, approximately 2000 Kazakhstanis are studying full time in the United States, including 700 funded by the Kazakhstani government's Bolashak scholar program. In addition, almost 4000 Kazakhstani students are participating this year in the private sector-sponsored Summer Work/Travel Program, which affords foreign students an opportunity to temporarily work in and travel throughout the U.S. during their summer vacations. End Note.) The first Peace Corps volunteers arrived in Kazakhstan in July 1993. Our Peace

Corps program currently averages 130 volunteers in country at any time, with two-thirds involved in educational activities and the remainder engaged in organizational and community development.

ORDWAY